Fact Sheet

Swine Marketing

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Choosing a Slaughter Hog Market

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Choosing a market is one of the important decisions a hog producer must make before he sells his slaughter hogs. The market selected will affect the income and profitability of his hog enterprise.

Prices vary between markets, and marketing costs such as selling charges, transportation and shrink can also vary. There are differences in the number of buyers competing, volume of hogs offered, packers' requirements for certain types of hogs, and charges for marketing services performed. Consequently, hog producers need to be aware of the alternative markets available to them and to choose the one which yields the greatest net dollar return.

This fact sheet describes the major kinds of markets available for slaughter hogs, and their strengths and weaknesses. It focuses on the important considerations that will help the hog producer select the most favorable market.

While some general statements may be made about the attributes of market outlets of a certain type, it does not mean that all market outlets of that type have those attributes or have them to the same degree. For example, in Iowa auctions are not a major market for slaughter hogs; therefore auctions are not generally a good market for slaughter hogs in Iowa because they have inadequate competition. However, this does not mean that all auctions have inadequate competition, because in some geographic areas they are major markets.

As a part of the marketing process, producers need to check periodically the prices and market conditions at more than one market. Even those producers who traditionally sell to one market should occasionally examine other market alternatives. Hog producers should contact other markets in their area, occasionally selling to them to test price levels, gross costs and net returns. This can be done by sending split loads of hogs to separate markets on the same day.

The question "Should I market my own hogs?" is one of the most important marketing decisions a hog producer needs to make. The hogman must objectively assess his own marketing abilities to determine if he has both the skill and the time to negotiate directly with the buyer. If he feels he does not have either the time or skill, he should choose a market alternative (i.e., terminal, auction, marketing pool) where he uses other people's skills to assist in the marketing process.

A producer marketing his own hogs typically will be selling to a packer buyer, an order buyer or a commission agent buying for a packer. One advantage of selling one's own hogs is that the price or a very close approximation may be known before hogs are moved from the farm. The producer who retains control of his hogs on his farm pending final sale has maximum market flexibility and possesses some market power. He can choose to accept or reject any price bid. He can do this without incurring any marketing costs, such as transportation, shrink and yardage.

The producer using a public market incurs those costs before knowing the final price. He must ship his hogs to market, accepting whatever price happens to prevail. It is usually not practical, in most public markets, to hold hogs over for later sale (although at times this is done) or to bring them back to the farm.

But the flexibility and the market power the producer has in marketing his own hogs is of little value if he possesses insufficient market knowledge to evaluate adequately market conditions applicable to the sale and prices being offered. To bargain effectively with the buyer,

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the producer needs to be aware of price trends, the present competitive price level, market supply, quality of his hogs, and needs of the buyer. The producer must also be willing to spend the time necessary to develop market knowledge. He must be aware that he is bargaining with a person whose continuous market contact has given him considerable marketing skill. The buyer's livelihood depends on his skill in buying. Buyers often obtain cut-out data on the hogs purchased which enable them continually to upgrade their buying skills and to know their customer's hogs. It is extremely difficult for a producer to match these skills.

Some producers develop a special relationship with a buyer, making possible market premiums for their hogs. These premiums exist only if the buyer is obtaining hogs of consistently higher quality, more uniform quality, or more uniform weight than the general hog supply. The buyer will not pay premiums if he is not gaining additional value from the hogs by doing so. In many cases sellers are not aware of how well their hogs cut out. It is possible that another buyer, once the reputation of the hogs is established, would pay even greater premiums, so constant checking of other market alternatives is important.

Direct Marketing

About 70% of the nation's hogs are sold by producers themselves. That is, the producer negotiates directly with a buyer and the price is established in direct negotiation.

Markets that fit the direct negotiation category include sales to packing plants, packer-owned country buying stations, order buyers, country dealers, independent country buying stations and cooperative country buying stations. The main advantages of direct marketing from producer to packer are farm freshness of hogs, minimum handling and shrinkage and reduced transportation costs.

As already noted, a hogman needs constantly to upgrade his bargaining skills to be his own negotiator when marketing direct.

Marketing through Public Markets

Some producers, about 29% nationally, choose to sell through public markets. Producers who choose this method may feel they do not have sufficient skills themselves to negotiate with buyers, or they may want to support public markets for the "good" of the industry. They rely on a qualified agent to market their hogs as in terminal markets or an auction where market action is created by buyers and sellers competing against each other. Even producers selling through public markets need to have sufficient marketing knowledge so that they can select the most appropriate time to sell. However, producers marketing through terminals or auctions can use the skills of personnel at these markets to help select the better times to market. These market personnel are familiar with buyers' needs for certain weights, grades and types of hogs.

The main types of public markets are central public stockyards (terminals) and auctions. An important advantage of public markets is that they are required by the Packers and Stockyards Act to be bonded. Bonding means that the seller has a better chance of being paid for hogs in case the buyer defaults than would be the case with a non-bonded buyer. On September 13, 1976, the President signed into law a bill which requires bonding of packing plants and changes the priority of payment in case of bankruptcy.

Central Public Markets (Terminals)

About 17% of the nation's slaughter hogs are sold through central public markets, more commonly called terminals. Slaughter hogs sold through terminal markets are typically consigned to a commission firm at that market. The producer selling through a terminal market must select a commission firm to represent his hogs and has a choice among many private firms and usually one cooperative commission firm. The producer must use care in selecting commission firms; he should choose one in which he has confidence and one that possesses knowledgeable personnel. A commission firm can help the hogman select the most appropriate time to market and a buyer who needs the kind of hogs offered. Commission firms are constantly in touch with the market, and they have a good feel of market demand.

One major advantage of terminal markets is that several buyers usually compete for the same hogs at that market. Typically, this is not possible when the hogman is selling his own hogs.

One major disadvantage of terminals or any public market is that if the market is overloaded or undersupplied on a particular day, price declines or strengths at that market can be exaggerated. Producers do not object to price strengths because of supply shortage but do object to price declines. Commission firms can, and do under extreme conditions, hold hogs for the next day's sale. However, this is not a general practice because hogs held over increase the next day's sales volume and tend to depress prices. Also, most hogs drop in quality and can shrink considerably if held at unfamiliar facilities for an extended time.

Auctions

Although auctions are not an important slaughter market outlet for many major hog producing states, over 12% of the nation's hogs are sold through auctions. In some localities auctions are the dominant market for slaughter hogs. The typical auction is a sale barn, but auctions are also conducted by electronics—teletype, telephone and video auctions. The sales barn auction normally requires hogs to be present at the auction.

Slaughter hogs marketed through auctions are sold to the highest bidder, whereas at terminals they are sold by commission agents to the buyers who in their judgment are the strongest bidders.

The effectiveness of a hog market is influenced by the volume and quality of hogs offered through it and the number of buyers it normally attracts. An auction market which can attract large numbers of slaughter hogs and very competitive buyers can be an effective market. Costs incurred by the producer in selling through this market can be offset if the competition for hogs is strong and prices are higher than at other markets. But the real test of a market is the net return to the producer.

One major disadvantage of this type of market is that hogs can be sold only on sale days, and most auctions have sales only one or two days a week. On the plus side, auctions are usually located fairly close to the farm so that transportation costs and shrink losses are minimal.

Recently, to expand buyer participation, telephone hookups have been added to some auctions so that buyers some distance from the auction can also bid on the livestock. The addition of telephone bidders tends to increase the competition at those auctions and thus enhance gross and net dollar returns.

Group Marketing

Some producers may not choose to use public markets or go the direct market route from farm to buyer. Instead, they may choose to market as a group. Two programs which fall into this category are the National Farmers' Organization marketing program and various Farm Bureau associated producer groups which have, on a local basis, negotiated contracts with packing plants or buyers in their area.

The basic purpose of these marketing organizations is to negotiate either higher base prices or higher quality premiums than are generally paid for hogs. The groups usually agree to supply the slaughter plant with a specific number of hogs either daily or weekly. Some unique techniques for evaluating hog quality have been developed by these organizations. One group bases hog premiums on a sample cut-out of a producer's hogs rather than individually evaluating each hog or group of hogs as they are marketed.

The success of group marketing endeavors has been variable, depending on the bargaining strength of the organization and the working relationship between the organization, the producer and the buyer. Most of these programs are designed to fit the needs of a packer buyer and a group of hog producers in a specific locality.

In areas of sparse hog production, organized group marketing via cooperative pools can improve the competitive market position of both producers and buyers. A pool can take several forms. It can be groups of producers formally organized under the provisions of the Capper-Volstead Act and state cooperative corporation laws, or it can be an informal arrangement whereby producers act together solely to assemble their hogs and present them for sale to the highest bidder. Effective marketing through cooperative pooling encourages increased volume, uniform size, weight and quality, a more regular supply and pricing closer to the true market value of the hog.

Producer livestock marketing cooperatives range from small local one-man buying and/or selling stations to complex organizations which operate in two or more states. All have the common objective of improving net farm income from hog sales.

In the past, a primary activity of most livestock marketing cooperatives or shipping associations was to locate a cooperative commission firm in each of the major terminal markets which broadened hog producers' choices of selling agents, making it possible for producers to select a cooperative or one of the private commission firms to sell their hogs.

But more recently, the marketing activities of cooperatives have ranged from single buying stations taking title to the producer's hogs to complex teletype and direct marketing programs. These new programs are not nationally available but are usually associated with an aggressive local or regional cooperative.

The major advantage of cooperative marketing organizations is that they may be able to reduce buyer procurement cost and also to enhance the bargaining position of producers, thereby improving net returns to both seller and buyer. Cooperatives have often been able to tailor their marketing program to meet the needs of hog producers and at the same time supply the buyer with the type of hog desired.

Alternative Methods of Pricing

Producers marketing direct may have a choice in pricing method. These pricing or selling options can be divided into three main categories: mixed pricing, live sort pricing, or carcass grade and weight (yield) pricing.

Mixed Pricing. Most hogs sold in the United States are priced by the buyer establishing one price for a group of hogs. This system is called mixed pricing because there is no attempt to establish a specific price for each grade or weight of hogs in the group but rather one price for the entire lot. Both grades and weights are mixed when this price is established.

The major advantage of this type of pricing is that it is easy for the seller to understand. The price is simply multiplied by the weight of the group to calculate the value of the shipment.

The major disadvantage is that it is very difficult to determine accurately the value of a mixed group of hogs. There is a natural tendency in any averaging technique to underprice the good hogs and overprice the poor ones. Producers who are selling better than average quality hogs should shy away from this method.

However, a producer may work closely with a buyer as they evaluate the quality of hogs produced from the herd. Therefore, the quality is fairly well known by both the buyer and seller, so the one-price technique can be used to price effectively and to simplify marketing.

Live Sort Pricing. This method requires that a specific price on each grade and weight group of hogs be established by the buyer. The hogs are separated into specific grade and weight groups by evaluating each live hog. These groupings and their appropriate prices are used to determine the value of the shipment. This method of pricing reflects hog values more accurately than does mixed pricing.

One major disadvantage of this type of selling is that in most cases the buyer sorts and grades the hogs. Ideally, the grading and sorting should be done by an impartial grader. Another disadvantage is that each slaughtering firm has its own unique grading system, making it difficult for producers to compare bids between buyers. Most buyers rely fairly heavily on USDA grade standards but also have grades not equivalent to USDA standards.

Carcass Grade and Weight (Yield). The final major method of selling or pricing hogs is generally called grade and yield. Under this method, individual hogs are evaluated in the carcass as they pass from the kill floor to the chill room. Each packing plant uses specifications to evaluate hog carcasses. Two factors are typically used in the evaluation process: carcass weight and cutability (grade) of the carcass. Price premiums or discounts from a base price are computed for each hog carcass to determine the total value of the carcass.

The principal advantage of this method is that it can more accurately determine hog values than the two previously mentioned. Most buyers using this evaluation technique send the seller a detailed report on the grading and pricing of his hogs. This report can be used by producers as a guide to help select the proper marketing weight and breeding stock.

The major disadvantage of grade and yield selling, as was the case with live sort, is that hogs are evaluated by the buyer, with the seller having no say in the evaluation criteria or how they are applied.

A second disadvantage is that if an error is made on hog count, hog grade or weight, it is impossible to re-grade or re-weigh the hogs because the carcasses have been either sold or cut up before the seller receives his report. A third disadvantage is that in many cases the seller assumes the risk and the loss of totally or partially condemned carcasses.

Finally, payment is delayed until after the hogs have been slaughtered and evaluated.

A vital part of this marketing technique is that producers need to establish a close working relationship with the buyer that should lead to mutual trust and understanding.

Choosing an Alternative

A hog producer should not use price as the only factor in choosing a marketing method or outlet. Other important marketing considerations are transportation costs, shrink losses, marketing fees, weighing conditions, payment reliability and market choices available. The primary goal of the hog producer when marketing is to obtain the highest **net** return for the hogs he sells off his farm. A producer can often be misled by a high bid. The high bid may have conditions attached to it so that the actual net farm bid is low.

The reliability of the buyer is important and should be carefully considered. Also the weighing of the hogs can be critical. At the public markets, hogs are weighed by a disinterested party whose sole responsibility is weighing them accurately. If weighing takes place at the buyer's location by his personnel, there is a possible conflict of interest in the weighing process. The integrity of the buyer is vitally important in these cases.

Whether or not a buyer is bonded can be important in case of a buyer default. If a buyer is bonded, the seller has recourse, but if the bond is not enough, the full amount of the default may not be recovered. The Packers and Stockyards Administration can advise producers whether a buyer is bonded and the extent of the bond. In the event of default of payment or any other improper marketing practice, the producer should promptly notify the P&SA and file a complaint. The P&SA, after notification, will take measures to help the producer correct the error or recover his losses.

Summary

Choosing a market alternative is a vital part of the hog producer's marketing decision, but other factors can be equally important. If more than one market alternative is available, a producer should occasionally patronize other markets as a check against his usual marketing program. No single market is continually and consistently the best market. Hog markets are part of a dynamic pork industry which is constantly adjusting to changing conditions. As these changes take place, an informed hog producer must, when it is to his best interest, shift his marketing technique.

Hog producers should review their marketing experience with other producers just as they do their production problems. Both successful and unsuccessful marketing programs should be discussed so that improved marketing methods and systems can be developed.

Hog producers also need to be alert to new marketing programs which may be an improvement over present alternatives and to learn to adopt these as they apply to the hog industry and to their hog enterprise.

Marketing Guide for Choosing Hog Markets

Selection of a particular market is only one factor a hogman must consider when marketing hogs. He must also consider selling costs, distance to market, size of shipment, shrink loss, weighing conditions, weighing point, convenience of the market, weight and grade, degree of sorting, pricing techniques available and proper timing of sales.

Each of the following factors is of importance along with choice of market before choosing a market strategy.

Shrink Loss—The weight hogs lose during transit to market is a function of distance and time in transit; the latter is the most important. Most hogs, no matter how close to a market, will shrink about 2%. The first 2% shrink occurs as the hogs are sorted, loaded and hauled the first few miles. To exceed 4% shrink, the hogs would either have to be shipped beyond 150 miles or be handled very roughly during shipping, or considerable time would have elapsed during shipping.

To compute the value of shrink loss one needs to multiply the percent shrink times the per hundredweight value of shrink loss (example: with 3% shrink and \$45/cwt. hog price = .03 x \$45 = \$1.35/cwt. reduction in value due to shrink). Thus, a \$45 price at a local market is equal to \$46.35 at a distant market.

The cost per hundredweight of shrink decreases as the price of hogs declines; therefore, the actual value of shrink loss is less at lower prices and greater at higher prices.

Transportation—The greater the distance to market, the larger the transportation cost, but the cost of transportation does not usually increase at a constant rate. The size of shipment can be an important factor in transportation costs.

The cost of transportation per hundredweight becomes less important as the price of hogs increases and more important as the price declines. Therefore, as hog prices increase the number of viable hog markets may also increase because the relative cost of going to more distant markets is less.

Selling Cost—The public markets, terminals and auctions have set commission, yardage, feed, and insurance fees that are incurred when selling through those markets. These costs must be deducted from the price to determine actual net farm price.

Other specialty marketing programs may also have marketing fees attached to them, and these should be handled the same way as public marketing fees.

Pricing Options—Some markets allow the producer to sell or have hogs priced by more than one method, making it possible for the producer to select the best option for selling his hogs. While it is difficult to put a value on this option, it is an important marketing feature and should help in selecting the best market.

Degree of Sorting—If a market, because of the method used to price hogs, requires that the producer excessively sort his hogs before selling, the producer should consider this a negative factor. Even though sorting can increase a producer's net returns, it requires both time and effort.

Timing of Sales—Selecting the proper time to market may be more important than all other marketing factors. The producer should not be so overly concerned with selecting the proper market that he ignores this important factor.

The accompanying worksheet guide will assist in identifying and evaluating some of the marketing factors.

A WORKSHEET GUIDE FOR CHOOSING A HOG MARKET*

I. Marketing Cost Factors	Market #1	Market #2	Market #3	Market #4
1. Distance from farm, miles	25	50	10	
2. Estimated shrink, %	2	3	1	
3. Selling costs per cwt. (incl. commission, yardage, insurance)	—	$0.55	—	
4. Total liveweight (at the farm), lb.	11,800	11,800	11,800	
II. Computing Net Return	**per cwt.**	**per cwt.**	**per cwt.**	**per cwt.**
a. estimated price	$40.00	$41.00	$39.25	
b. transportation	0.25	0.40	0.15	
c. shrink (% x price/cwt.)	0.80	1.23	0.39	
d. selling costs	—	0.55	—	
Net farm price† = a-(b+c+d)	38.95	38.82	38.71	

*The information developed on this worksheet can be a valuable aid in hog marketing decisions and for income tax purposes. The pencil example shows how producers with three markets, (1) a nearby packing plant, (2) a central public market and (3) local buying station, would compare bids or prices from the three markets.

†If all marketing factors have been properly accounted for, the highest net farm price should be the best market.

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